

## Cotton

Growth in foreign consumption and production of cotton both slowed to negligible rates during the last 10 years but, until the Asia crisis, both had begun to rebound. Growth is expected to resume, but they are not expected to return to their long-term average growth rate of 2.2 percent per year during the baseline. World cotton consumption is projected to expand approximately 1.5 percent annually during 1999-2008, underpinning the outlook for relatively strong import growth. However, a key uncertainty in the projection is the extent to which earlier gains in cotton consumption, associated with a shift in consumer fiber preference toward cotton and away from synthetics, can be sustained. Sustained Asian investment in polyester capacity up to the onset of the region's financial reversals suggests vigorous competition for fiber share in coming years.

Foreign production stagnated in the decade up to the mid-1990s, as smaller harvests in China and the FSU offset gains elsewhere. High levels of input use and poor water management have rendered useless much of the area abandoned in Central Asia during the 1990s, and this area is expected to remain out of production during the projection period. Pesticide resistance and competition from other crops hampered production in China, although recently yield growth has apparently resumed. Further losses in these regions are not expected, and Central Asia's production is expected to resume growth, although not as quickly as elsewhere.

World cotton trade is expected to average 2-percent annual growth during 1999-2008, reversing much of the decline suffered during the previous 10 years. World cotton trade fell from a peak of 33.4 million bales in 1988 to as low as 25.6 million in 1992, in large part due to declining Russian imports. Imports have again slipped to about 25 million bales in 1998 as the Asian financial crisis again cut Russia's imports as well as purchases by some Asian importers. China also switched from large importer to exporter in 1998. Import growth is foreseen in Russia, China, and elsewhere after 1999, and, by 2007, world exports are projected at 31.4 million bales.

World trade contracted for two reasons beginning in the late 1980s--the virtual collapse of Russia as a consumer and importer of cotton, and the continued shift of spinning from traditional importers to cotton-producing countries. Neither factor is expected to be as important in the future. Russia's cotton consumption fell more than 80 percent between 1989 and 1996 during the restructuring of Russia's political, economic, and foreign trade systems. Elsewhere, other traditional cotton-importing countries found it less expensive to purchase cotton yarn and fabric for their textile industries as inexpensive textile imports flooded their markets, particularly from Pakistan through the early 1990s. These imports took the place of imported raw cotton.

With Russian and Central and East European consumption beginning to rebound after 1999, world cotton trade is likely to grow during the next 10 years. Also, pest and disease control problems have constrained Pakistan's ability to maintain its earlier growth rates in cotton production, cotton consumption, and textile exports. This strengthens prospects for raw cotton demand by some cotton-importing textile exporters who will face less competition. Finally, several countries that were net suppliers to world markets as late as 1990 have become importers instead. In past years, increasing consumption in Mexico, Brazil, and Turkey in part represented shifts in consumption from importing countries to non-importing producers. As consumption gains have consistently

outpaced production in all three countries, they have begun to steadily import, driving world trade higher.

Foreign export growth is expected to recover during 1999-2008, but to remain below the long-term trend. By 2008, foreign exports are expected to total 23.7 million bales. Foreign export growth will be supported by some resumption of trade relations between countries of the FSU, and by growing import demand from China, Latin America, and Southeast Asia.

U.S. exports are also expected to trend up during 1999-2008, growing to 7.7 million bales by 2007. The U.S. share of world trade is likely to average a little more than 24 percent, below its average share during 1990-1997. U.S. export share was boosted during much of the 1990's by extremely large imports by China and by Step 2 of Cotton Marketing Loan Program. U.S. exports are expected to rise 2.5 percent annually during 1999-2008, faster than world trade as the United States rebounds from unusually low beginning stocks in 1999.

The rapid consumption growth of the 1980s, spurred by prolonged economic expansion and sharp share gains by cotton versus other fibers in some markets, is not expected to resume. In the short term, consumption growth by several cotton importers is likely to be constrained by relatively sluggish economic performance and economic restructuring. In the long term, the liberalization of textile trade under the Uruguay Round Agreement will also constrain cotton imports by the most developed traditional importers, such as the EU and Japan. In contrast, rapid consumption growth is expected in many developing countries and steady growth is expected to continue in major cotton-producing countries. However, the pace of this structural shift will depend on the implementation of the Multi-Fiber Arrangement's phaseout. While it is anticipated that the most significant changes will probably be delayed until the end of the implementation period in 2005, large uncertainties remain about the timing of liberalization and shifts in garment production both to and among developing countries.

### **Highlights for Major Importers**

**Japan, South Korea, Taiwan, and the European Union.** In these traditional cotton-importing countries, consumption is expected to decline steadily. Strong competition from emerging Asian textile suppliers and comparative production disadvantages will accelerate declines in their raw cotton consumption after 2000.

**China.** China's consumption is expected to grow more rapidly than production during 1999-2008. While China is forecast to be an exporter over the forecast period, net imports are forecast to resume after China reduces its stocks. After first suffering chronic bollworm infestations during the early 1990's, the North China Plain is now likely to be subject to a variety of policies constraining area in what once was one of China's pre-eminent growing regions. While the Yangtze region's cotton area was much more stable than the North China plain's during the 1990's, official policy also seeks lower area there in the future, and China's total area devoted to cotton is expected to remain well below the peaks seen in 1984 and 1992. China's yield growth recovered during the 1990's, but the expected termination of a government price floor suggests the incentives for maintaining input levels will be lower

for the early part of the forecast period.

China's future production and consumption prospects are both subject to considerable uncertainty. Since China is one of the world's largest importers over some of the projection period, differing assumptions on supply and use developments could significantly influence world trade and U.S. exports. Specific areas of uncertainty include the extent to which current high stocks will be drawn down by reducing production versus managing trade, and the extent to which cotton consumption, which has apparently stagnated since the late 1980's, will respond to sustained economic growth.

**Indonesia and Thailand.** In these two countries, consumption and import expansion are expected to resume after 1998 as they benefit from comparatively cheap labor, favorable exchange rates, and foreign investment in their textile industries. Indonesia is expected to be the largest importer in the world throughout much of the forecast period .

**Brazil.** Brazil's production plummeted and imports soared as it reoriented its economy at the beginning of the 1990's. Brazil is not expected to return to the import-substitution orientation that governed its economic policy before in earlier years, and cotton import tariffs are likely to remain low. Consumption is expected to continue outpacing production, and Brazil is projected to be one of the largest single-country importers throughout the projection period.

**Central and Eastern Europe and Former Soviet Union.** After years of plummeting cotton consumption, some CEE and FSU countries are beginning to increase consumption again. For most of the region's traditional importers, cotton consumption and imports are expected to remain well below historical levels throughout 1999-2008. While traditional consumers in the region remain below historical norms, Central Asian countries, like Uzbekistan, are likely to consume more cotton than in the past.

Demand prospects in the non-producing republics of the FSU and CEE are a major uncertainty in the trade outlook, particularly for Russia. As the economies recover in Russia and the other lagging republics, it is not clear if their textile sectors will expand at the same rate as the overall economy, grow faster as a result of promotion aimed at achieving quick gains in export earnings, or suffer due to import competition.

### **Highlights for Major Foreign Exporters**

**Australia and West Africa.** Australia and the French-speaking countries of West Africa will continue to channel most of their growing cotton output into the export market throughout the period.

**Pakistan.** Pakistan is expected to maintain some regulation of raw cotton exports, favoring domestic producers of products for export over exports of raw cotton. However, restrictions on raw cotton exports are expected to be less severe than before the 1994/95 relaxation, leading to some growth in raw cotton exports, as well as some strengthening of domestic producer and consumer prices with respect to world prices.

**India.** With much potential for yield gains, India is expected to raise exports moderately. However, as with Pakistan, India's export growth will be limited by strong growth in domestic consumption, and in exports of yarn, cloth, and garments.

**Former Soviet Union.** The Central Asian countries of the FSU will continue exporting cotton to non-FSU markets at higher levels than during the 1980s. These countries are also expected to increase their exports within the FSU. Central Asia's ability to export, however, will be heavily dependent on yield gains. Past environmental damage is expected to keep some land out of production indefinitely, and efforts to diversify agricultural production will sustain area for grains and other crops at the expense of cotton.

Supply prospects in Central Asia--currently the source of nearly one-quarter of world cotton exports--are an important uncertainty in the global outlook. Economic and agricultural reform has been slow in the region's major producers, so reform's long run impacts on yield growth and cross-commodity competition remain conjectural. Central Asia's exports are expected to grow more slowly than the rest of the world, and the region's share of world trade to fall below 20 percent before 2008.

**Brazil, Mexico, Central America, and Turkey.** In some traditional cotton-exporting countries, such as Brazil, Mexico, Central America, and Turkey, cotton exports were substantially reduced during the 1990's while imports increased to meet more rapidly expanding consumption needs. These trends will continue, and these countries, with the exception of Turkey, will be expanding their net imports of cotton.